

# Indian Aerospace & Defense Companies Moving Up The Value Chain



## GROWTH DRIVERS

- India has the **3<sup>rd</sup> largest armed forces** in the world and is ranked **19<sup>th</sup>** among the world's defense exporters in attracting foreign investments.
- India's defense manufacturing sector has been witnessing a **CAGR of 3.9% between 2016 and 2020**.
- By 2025, the ministry aims to achieve turnover of **US\$ 25B**, including export of US\$ 5B in aerospace and defense goods.
- India's **defense budget for 2020-21 is US\$ 7B**, 13.73 % of the total central government expenditure. This industry accounts for about 1.6% of the GDP.
- 60% of defense procurement related requirements are met by imports, however, India has been making steady progress in **exports of Arms and Ammunition, Weapon Spares, Chemicals & Explosives**, etc. to **42 countries** including the US, Australia, Finland, France, Germany, Israel, South Africa and Sweden.
- **US\$ 100B will be invested** in the next 10 years on aerospace & defense acquisitions in India.
- A&D organizations are leveraging **Industry 4.0** technologies; industry executives should consider this as an enterprise wide investment in driving long-term growth, innovation, productivity, and efficiency.
- These technologies will be much more sustainable and robust over business cycles. A&D executives can align top leadership, talent, and investments around digital transformation. Being able to completely leverage innovative, game-changing technologies could be a matter of survival in the increasingly "disrupt or be disrupted" A&D industry.
- Due to the higher tariffs, increasing cost and impact due to COVID-19 pandemic, major companies are planning to move their operations out of China to neighboring countries such as India and Taiwan. This is expected to drive the growth of the Maintenance Repair & Operations (MRO) market in India.
- The **MRO market** for aircraft is itself expected to touch **US\$ 4B by 2025**, creating significant business opportunity.
- As India builds greenfield and brownfield airports over the next 10 years, there will be growing opportunities in airport planning and development, sustainable airports, safety and security, body scanners, digital systems, and more.

## OPPORTUNITIES FOR COLORADO COMPANIES

- Boeing, Airbus, and other OEMs consider India an important global market with demand for aircraft, a strategic geographic location, engineering expertise, and competitive labor cost.
- Offset policy is part of the Defense Procurement Procedure, mandating 30% for procurement deals valued over US\$ 300M. The **offset opportunity is expected to be worth US\$ 15B within the next 10 years**.

- Manufacturers from around the world are collaborating with Indian suppliers and Micro, Small and Medium Enterprises (MSME's) to meet the needs of Tier 1 suppliers and create an aerospace industry ecosystem in the region. The active presence of global players is projected to fuel the development of India's aerospace industry.
- Over 50% of defense procurement related requirements are met by imports. This creates **opportunities for foreign Original Equipment Manufacturers (OEMs)** to bolster exports in the long term and form strategic partnerships with Indian firms to leverage both domestic and regional and global markets for supply.

## GOVERNMENT INITIATIVES

- India has a competitive advantage over other countries due to its low cost of manufacturing components. With affordable labor, availability of resources, and supportive government policies, India offers tremendous growth potential in the aerospace industry for foreign investors seeking to invest in this sector. The A&D sector, which is supported by the government's "Make in India" initiatives, encourages foreign players to invest in and optimize the manufacturing process.
- The government has **increased FDI to 74%** via automatic routes in the defense sector. **FDI inflow of over US\$ 463M** has been registered in the A&D sector as of June 2020.
- An innovation platform called Innovations for Defense Excellence (iDEX) was launched in 2018. iDEX aims to build an ecosystem to encourage A&D innovation and technology initiatives by engaging and supporting industries such as start-ups, MSMEs, innovators and institutes with funding to conduct R&D for future adoption of Indian A&D needs.
- **Manufacturing and R&D is allowed 100% FDI** in all areas, except air traffic services. **Tax exemptions** are available up to 100% for airport projects.
- The Defense Ministry estimates that **number of Micro, Small & Medium Enterprises will double to 16,000** by 2026 as they become integrated into global supply chains.
- Policy reforms such as the inclusion of aviation turbine fuel in the Goods and Services Tax will create opportunities for collaboration to address India's shortage of MRO facilities.
- The Defense Ministry has set a target of **70% self-reliance in weaponry by 2027**, creating huge prospects for industry players.

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